

Ziqitza Health Care Limited:

Responding to Corruption

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Introduction

After a monthly staff meeting, a young employee approached Sweta Mangal, CEO of Ziqitza Health Care Limited (ZHL). Sanjay Rafati¹ had been hired as a financial officer the previous month, in November 2011. In view of the company's strict ethical code, he was nervous about expressing his point of view, which was why he wanted to see Ms. Mangal in private:

"The situation in one of the states where ZHL operates is getting critical. Unless the government pays what it owes us immediately, we will not be able to make payroll. We won't be able to service our new ambulances, which will open us up to more accusations of negligence. Lives may be lost. This will devastate our morale and ruin our reputation. That bureaucrat will never stop."

Although Rafati had refrained from stating it directly, she understood that he wanted her to bribe a recalcitrant official.

This particular state had been a thorn in her side for two years. While the timeliness of payment varied from state to state, a delay of this length from a state government was extremely rare. The predecessor of "that bureaucrat" had asked her to fly there, only to cancel the meeting after she had arrived – a scenario that had played out no fewer than seven times. "He wanted us to bribe him," she explained, "and we refused. He also didn't like the fact that I, a woman, lost my temper and told him off."

Under the terms of the Public-Private Partnership finally established with this state under a new official in July 2010, ZHL planned to have a total of 464 ambulances, essentially doubling its ambulance fleet. This represented a major investment. Now, the new state official was using the financial commitment ZHL had already made to the state to up the pressure for a bribe, as she explained:

"Whenever we submitted invoices, they would send us a series of queries. We would answer them and then they would raise a new set of queries. This followed a couple of times and the concerned person used to ask for a bribe in a roundabout manner, but we ignored the same. Then finally in Fall 2010, he asked directly: 'If you arrange to pay me 5% of the invoice value, things will work out.' When we raised the issue with his superiors, they asked us to put the claim in writing. We did, but nothing changed, rather things worsened."

The cycle, she feared, was never-ending.

The financial calculation, she knew, was compelling: for a bribe of 5% of the total due to ZHL, the entire payment would be made on time. Hundreds of thousands of rupees were in play.² While legal adjudication of the issue was theoretically becoming available through a civil court, it could take years to reach a decision; even the way of functioning of the new court was yet to be established. ZHL needed the money now. It couldn't run a business where one of its largest customers was not paying its bills. The only alternative was

1 Certain names have been changed for the purposes of this case. Unless otherwise noted, source material comes from interviews with ZHL employees or representatives.

2 1,000 INR = \$22.54 = 16.21€ (October 2010).

a loan at 15% interest – triple the cost of the bribe. But how sustainable would this be in the long term?

Ms. Mangal spoke quietly, looking into Rafati’s anxious eyes: “You know that we cannot – ever – offer a bribe. That would violate our most fundamental commitment to ethics and transparency.” Yes, she acknowledged, most Indian companies would have paid the bribe, but ZHL was changing Indian society, and it was part of a movement that was gaining momentum. “This is who we are,” she insisted. “Be patient and contact the bank.”

With that, she returned to her office, worried that Rafati might resign.

Background

With a population of over 1.2 billion, India was the world’s largest democracy, with a 2011 (est.) GDP of \$1.676 trillion.³ It ranked 95th on the Transparency International Corruption Perceptions Index in 2011, behind Albania, Rwanda and Columbia (see Exhibit 1). According to Transparency International, \$US19 billion in illicit payments were transferred outside the country each year. To receive basic services such as a telephone, a water supply or a driver’s licence, 54% of households expected to pay a bribe in any 12-month period.⁴ India’s bloated and inefficient bureaucracy routinely solicited bribes and extorted payments from businesses just to maintain their everyday operations. On average, it took over 1,000 days for a contract to become recognized as legally binding. Many petty bureaucrats regarded these payoffs as a supplement to their meager incomes, which barely kept pace with the cost of living. Over 25% of all Indian politicians, it was reported, were under investigation for corrupt practices. Corruption was so much a part of the economic and social fabric that many doubted it would ever be rooted out – it was just part of the cost of doing business which no one questioned or challenged.⁵

Nonetheless, a movement of Indian citizens had begun to chip away at the problem. Not only were grassroots protests gaining international recognition – including a series of hunger strikes by anti-corruption activist Anna Hazare – but citizens and companies were increasingly using legal channels to further their demands. In polls, 75% of respondents indicated that they would support anti-corruption activities.⁶ One notable initiative, “Integrity Pacts”, required signatories to refrain from bribery or collusion in their dealings with public bodies. It was one of many underway.⁷ Another resource was the website, ipaidabribe.com, which offered information on bribes and corruption as well as a reporting mechanism to publicly document the circumstances in which a bribe was solicited or paid.⁸

3 <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>

4 http://www.transparency.org/news_room/in_focus/2011/india_speaking_up_for_integrity.

5 Ashutosh Misra, <http://blog.transparency.org/2012/02/13/indias-state-companies-open-up/>.

6 Ishaan Tharoor, “Anna Hazare’s Hunger Fasts Rock India,” *Time*, 7 December 2011.

7 Mishra, *op. cit.*

8 <http://ipaidabribe.com/>.

ZHL

Founded in 2002 with a single ambulance, ZHL was created to respond to a pressing social need: the lack of a consistently high-quality ambulance service in India. Emergency forms of transport were available from an unwieldy combination of private companies, government bodies, non-governmental organizations and charitable groups. As a result, the death toll in India from acute illnesses, accidents and natural disasters was unusually high.

ZHL's founders – Ravi Krishna, Naresh Jain, Manish Sancheti, Sweta Mangal and Shaffi Mather – had left highly-paid private sector jobs in the US and India in order to become social entrepreneurs in health provision (see Exhibit 2). ZHL's founders were committed to creating a new kind of organization for India, and indeed for the developing world. According to the ZHL website:⁹

“The name Ziqitza was derived from the Sanskrit word ‘chikitsa’, meaning medical treatment, and Zigyasa, meaning quest for knowledge. Even our brand philosophy is based on the thought of Mahatma Gandhi that “Saving a life is one of the most rewarding experiences a person can undergo in his/her lifetime.”

They chose to focus on ambulance services largely because of a personal experience in founder Shaffi Mather's family: his mother had woken in the middle of the night, choking, and he had not known what to do or who to call for help. She had survived, but he was shaken. Fellow-founder Ravi Krishna was able to obtain emergency care for his mother within minutes of her collapsing in Manhattan during one of their US visits. The difference, they realized, was the 911 Emergency Medical Services (EMS) there.

They first came up with a model for the company based on Krishna's experience with 911. Services would include basic and advanced life support, administered by paramedics, and transportation to hospital for both non-emergency and accident/disaster victims. Needs were acute and growing, not least given India's unusually high rates of road traffic accidents (16 per thousand vehicles, compared to a world average of 0.75 per thousand), diabetes, cardiovascular disease, and disasters, both natural and man-made. Of accidents of fatal consequence, 30% of fatalities were due to transportation delays; 50% occurred in hospital due to infection or systems failure; and the remaining 20% died at the site of the accident due to injuries.¹⁰

Unlike other service providers, ZHL's business model would combine profit making with social goals. On the one hand, it would offer a “private pay” ambulance service based on a sliding scale, depending on ability to pay and the type of hospital (private/government) to which patients went. Approximately 20% of patients would receive subsidized rates. On the other hand, in public-private partnerships with state governments, a generally free-of-charge service would be made available to anyone in need. The goal was to begin with services in Mumbai and gradually expand to all of India. In accordance with the founders' vision, the company would be accessible to all regardless of income, made financially sustainable by its work, and provide a model of a world-class ambulance service for the developing world. An

9 <http://zhl.org.in/aboutus.html>

10 ZHL Ppt. presentation.

additional source of revenue would be advertising on the ambulances themselves.¹¹ (See Exhibits 3, 4 and 5).

In a departure from standard practice in India, ZHL's founders pledged to categorically refuse to engage in bribery and other corrupt practices, opting instead for complete transparency. Corruption, in their view, had a symbiotic relationship with poverty, perpetuating exploitive practices and undermining fundamental societal values. Not only should this position form an integral part of the ZHL brand, it should underpin the everyday decisions of all its employees. Knowing this would be extremely challenging, the founders took the unprecedented step of setting up an in-house legal team, which was expensive.

Growing Pains and Gains

From the start, ZHL encountered the traditional difficulties related to corruption. When the founders wanted to acquire an easy-to-remember four-digit phone number for an emergency service (1299), a bureaucrat demanded a bribe. Their categorical refusal surprised him but they could not get him to budge. Eventually, they chose the less memorable 1298 for their dial-in pay service. It was to become the identifying brand name of the company. In addition, the 108 dial-in service would serve for public-private partnerships in which ZHL cooperated in an official capacity with the state authorities (as in Rafati's "problematic" state). Technical expertise and training was provided by the London Ambulance Service, a strategic partner and the largest metropolitan emergency ambulance service in the world to provide Emergency Medical Service that was free to patients at the time they received it.

Once the company was up and running, the emergency services concept proved popular in Mumbai. From 2005 to 2007, ZHL added 22 ambulances to its fleet, answering the needs of over 43,000 patients under the Dial 1298 for Ambulance model. The revenue model worked well, attracting international investors for the first time.¹² However, corruption issues persisted with the government, as Sweta Mangal explained:

"They accuse us of providing bad services, and then ask for payment to 'mitigate' the problem... We refuse to take this route... Word of our reputation travels by mouth. We serve as an example that a company can operate corruption-free."

Even more important, she and the other leaders at the company held regular meetings to explain what they were doing and why to ZHL employees. "We continually work to create an ethical corporate culture. Employees believe in our values. Job candidates even seek us out because of them," she said. While ZHL paid relatively competitive salaries, she emphasized, that was not the only reason that their employees wanted to work there.

Thanks to its reputation for competence as well as incorruptibility, ZHL gained the attention of the Acumen Fund, an investment group which was attempting to steer a middle way between dependency-creating charities and market solutions that often ignored "bottom of the pyramid" business models. It sought to enable social entrepreneurs to challenge traditional

11 *Ibid.*

12 <http://www.acumenfund.org/knowledge-center.html?document=245>.

development paradigms. As a “patient” or “philanthropic” capital investment group, Acumen’s hallmarks included:

- long-term horizons
- tolerance for risk
- an end goal of maximizing social rather than exclusively financial returns
- the provision of management support to enable innovative business models to thrive
- flexibility regarding partnerships between governments and corporations in the service of low-income customers.¹³

After careful due diligence and discussion with ZHL’s founders, the Acumen Fund agreed to make an initial investment of \$US1.5 million in 2007. This set the stage for explosive expansion, not only of its ambulance fleet in Mumbai, but for it to begin operations in other states (see Exhibit 6). As part of the funding deal, Acumen also provided cutting-edge support in the form of advice. It regularly sent executives to work with ZHL on location in Mumbai.

Major Player, Minor Players

ZHL’s fleet of ambulances expanded rapidly from a few dozen to over 860 by the end of 2011. Meanwhile, headaches with people expecting bribes – both high officials and petty bureaucrats – multiplied concomitantly with its new responsibilities and obligations, as Ms Mangal recalled:

“Always looking for a payout, they found all sorts of new ways to harass us. They demanded ‘a, b, and c’ right away, even though they were slow to process our demands on their end, and when we delivered, they said now they needed ‘d, e, and f’. It’s always different and always the same. But we would never choose to go down the road of bribes or opacity.”

For example, after the Mumbai terror attacks, officials re-interpreted the law that regulated working hours and then threatened legal action against ZHL, requesting a bribe to drop the case. This led to a long and costly legal dispute.

In 2008, ZHL’s founders worked relentlessly to open up state ambulance contracts to open tender and to bring transparency to the Public Private Partnership Tenders for EMS in India. It also helped to catapult Mather and the other founders beyond the national spotlight, where they had been tirelessly advocating for an end to corruption for nearly a decade, and onto the international stage, such as with a TED (Technology Entertainment Design) talk by Shaffi Mather in December 2009. Their awards included (also see Exhibit 7):

- Jury’s Choice Spirit of Humanity Award by AmeriCares, 2012
- Continuity & Recovery Initiative Award in Public Interest by BCI and KPMG, 2011
- Jaagrath Award to Dial ‘1298’ for Ambulance, Kerala, 2011

13 <http://www.acumenfund.org/about-us/what-is-patient-capital.html>.

- Excellence in Social Entrepreneurship Award by Zee TV to Sweta Mangal, CEO, 2011
- Times Foundation Recognition Award for Life Saving Service, 2007
- Tata TiE Stree Shakti Award to Sweta Mangal, CEO, 2009
- ‘Special Recognition’ and ‘Continuity & Recovery Initiative of the Year in Public Interest’ by BCI and Deloitte, 2008
- Godfrey Philips Bravery Award for Social Act of Courage from Hon. President of India Pratibha Patil, 2007

The Decision

In spite of the worried look on Sanjay Rafati’s face, Sweta Mangal was resolute in her decision to refuse to bribe the official to release the payment owed to ZHL. Her behaviour would, she believed, send the right message to her employees – it would not just maintain but reinforce ZHL’s corporate culture.

For his part, Rafati was concerned that the payment delay would undermine the position he had just taken up in the ZHL office in this problematic state, as well as the nascent culture of the new office. ZHL had, he believed, come very far, very fast. Perhaps it was time to compromise for the sake of payment. He also knew that people had died in India fighting corruption, such as Satyendra Dubey, a project director at the National Highways Authority of India who was murdered in 2003 after exposing corruption in a highway construction project, and Shanmugam Manjunath, who was murdered in 2005 for sealing a petrol station selling adulterated fuel.¹⁴ Besides, he reasoned, paying made economic sense: he stood to save a full 10% on the loan option, which could be used to keep people employed, to finance maintenance on the new fleet – saving money in the long run – and to retain the employees that he was hiring and training at great cost. The state official seemingly could delay payment indefinitely. Surely paying was necessary for survival, if not more profitable? In the end, how much difference would such a small compromise make? Hadn’t India just *fallen* on Transparency International’s corruption index, from 87th to 95th? It was now behind China, which ranked 75th.

¹⁴ http://en.wikipedia.org/wiki/Satyendra_Dubey; http://en.wikipedia.org/wiki/Shanmughan_Manjunath

Exhibit 1
Graphical Representation of Transparency International Corruption Perceptions Index

 **TRANSPARENCY INTERNATIONAL**
the global coalition against corruption

CORRUPTION PERCEPTIONS INDEX 2011

THE PERCEIVED LEVELS OF PUBLIC-SECTOR CORRUPTION IN 183 COUNTRIES/TERRITORIES AROUND THE WORLD

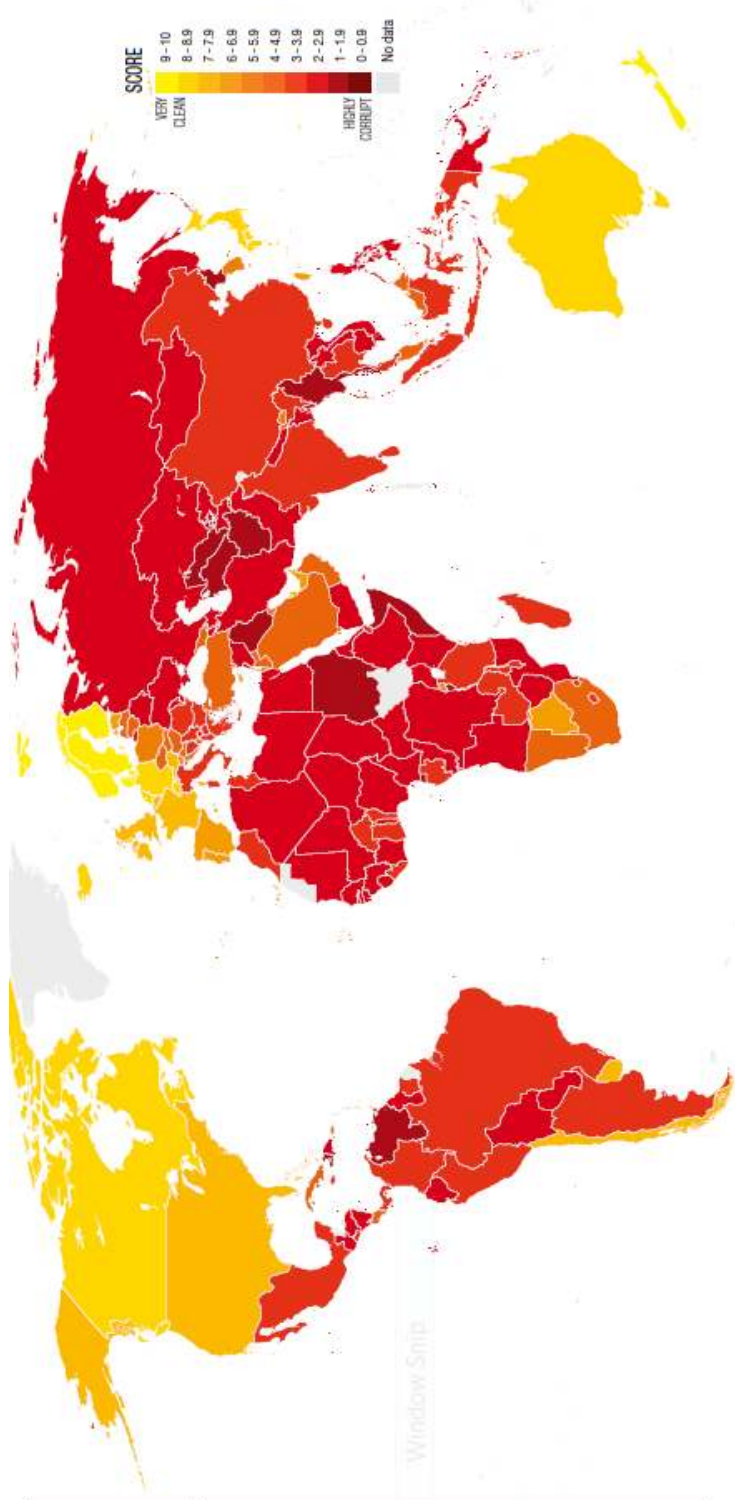


Exhibit 2
The Founding Team



Left to Right: (Naresh Jain, Ravi Krishna, Shaffi Mather, Sweta Mandal and Manish Sancheti.

Exhibit 3
ZHL Ambulance Services



1298 Cross Subsidy Model

50+ Dial 1298 Ambulances are present in Mumbai, Bihar, Punjab & Kerala



Ambulance Outsourcing

15+ Ambulances are operated and managed by us for reputed hospitals and organizations



Public Private Partnership Service

800+ Dial 108 Ambulances in Bihar, Kerala, Rajasthan, & Punjab

Source: Ziqitza Health Care Limited.

Exhibit 4

ZHL 1298 Business Model



Dial 1298 Cross Subsidy Model depends on two revenue modes:

- User Fee: Wherein people who go to private hospitals pay full charge and people who go to Government hospital get subsidy up to 50%
- Branding Revenue: To generate fixed income to service subsidized calls 1298 give external advertising space to corporate on yearly basis.

Source: Ziqitza Health Care Limited.

Exhibit 5

ZHL 108 Business Model

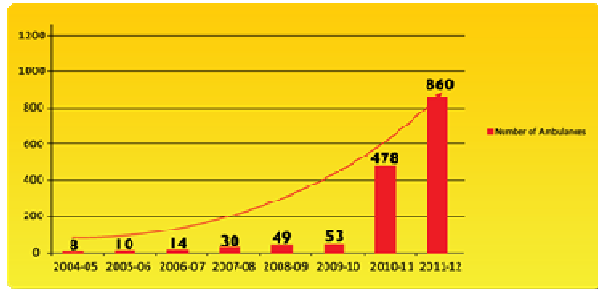


- Dial 108 in Emergency works on the principle of Public Private Partnership with various State Governments.
- Currently, Dial 108 in Emergency operates in Bihar, Kerala, Rajasthan, & Punjab
- Dial 108 operates more than 800 Ambulances across the 4 states.

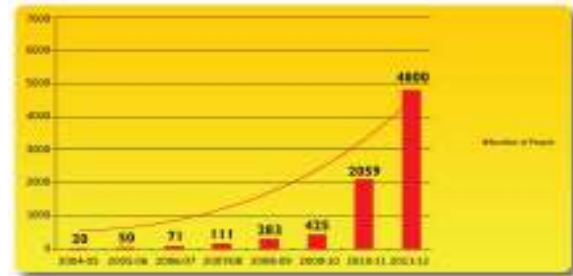
Source: Ziqitza Health Care Limited.

Exhibit 6
ZHL Performance Statistics

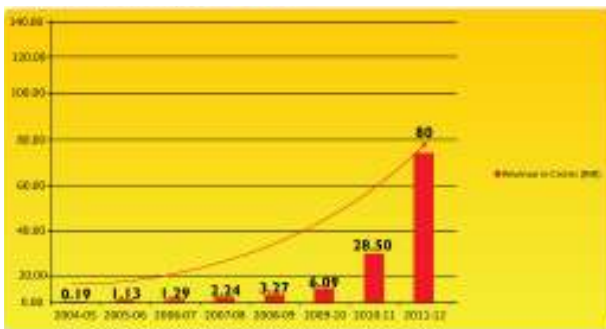
Currently 860 Ambulances are operational, compared to 8 in 2005



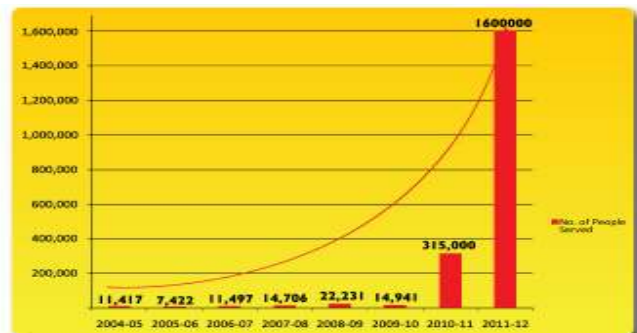
Our current manpower is 4800 compared to 20 in 2005



Revenue has increased 420 times since 2005



1,600,000 Patients Served, up from 11,417 in 2005



Source: Ziqitza Health Care Limited.

Exhibit 7
Awards and Recognitions

